

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SSO-00 NSCE-00 INRE-00 USIE-00

SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 PA-01 PRS-01

AGR-05 IGA-02 INT-05 FEAE-00 IO-11 /097 W

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC IMMEDIATE 5153

C O N F I D E N T I A L SECTION 1 OF 2 BUENOS AIRES 2286

E.O. 11652: GDS

TAGS: EGEN, EFIN, EINV, AR

SUBJECT: ECONOMY MINISTER ANNOUNCES GOVERNMENT'S NEW ECONOMIC
PROGRAM

PASS TREASURY, COMMERCE

REF: BUENOS AIRES 2210

SUMMARY: EVENING APRIL 2, ECONOMY MINISTER MARTINEZ DE HOZ
DELIVERED SOLEMN 2 1/2 HOUR MESSAGE TO NATION OUTLINING GOVT'S
NEW ECONOMIC PROGRAM. HE SET FORTH TOUGH STABILIZATION PROGRAM
TO INITIATE ECONOMIC RECOVERY..EMPHASIS WAS ON REDUCING FISCAL
DEFICIT, STIMULATING AGRICULTURE, RAISING INVESTMENT AND
PRODUCTION, RESTORING FINANCIAL SOLVENCY, REDUCING CONTROLS,
AND PROMOTING FREE ENTERPRISE. STRESS PLACED THROUGHOUT TALK
THAT MEASURES MUST BE APPLIED IN STAGES, AND ACKNOWLEDGEMENT
THAT RECOVERY WOULD BE DIFFICULT AND LENGTHY TASK CONTRASTED
SHARPLY AND FAVORABLY WITH RODRIGAZO SHOCK EFFORT OF LAST JUNE.
EMBASSY BELIEVES NEW PROGRAM WILL HELP PUT ARGENTINA ON ROAD
TO ECONOMIC RECOVERY BUT DIFFICULT MONTHS LIE AHEAD. MARTINEZ
DE HOZ, DELIBERATELY IT SEEMS, OFFERED NO SOP TO WORKING MAN
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OR ORGANIZED LABOR; RESTORATION OF LABOR'S REAL INCOME IMPLICIT

IN PROGRAM NOT EASY TO GRASP AND NOT EMPHASIZED IN POLITICAL TERMS. AS WE SEE IT, THERE IS POSSIBILITY OF ADVERSE REACTIONS FROM LABOR AND TERRORIST ACTIVITY AIMED AT EXPLOITING THESE REACTIONS. THIS COULD BE TROUBLESOME TO JUNTA AND MARTINEZ DE HOZ IN SUCCESSFUL ACCOMPLISHMENT OF PROGRAM. END SUMMARY.

1. INTRODUCTION: MARTINEZ DE HOZ GENERALLY FOLLOWED TEXT PRELIMINARY GUIDELINES DOCUMENT (SEE REFTEL) ALTHOUGH HE ALSO INTRODUCED A FEW SIGNIFICANT CHANGES AND IMPROVED IN PLACES. THIS CABLE WILL COVER PRIMARILY SPECIFIC POLICY RECOMMENDATIONS; BELIEVE OTHER POINTS ALREADY REVIEWED REFTEL AND AVAILABLE FBIS. THREE SIMILAR, BUT DISTINCT, DOCUMENTS NOW EXIST ON ECONOMIC PROGRAM: 1) PRELIMINARY ECONOMIC GUIDELINES, 2) WRITTEN TEXT OF MARTINEZ DE HOZ SPEECH AND 3) TAPED VERSION OF MINISTER'S ACTUAL COMMENTS INCLUDING IMPROVISATIONS. WE WILL POUCH WASHINGTON ENGLISH TRANSLATION OF LATTER I.E. WHAT MINISTER ACTUALLY SAID (ATTENTION JACK SMITH ARA/APU).

2. OPENING COMMENTS: IN OPENING COMMENTS, MARTINEZ DE HOZ POINTED OUT ARGENTINA FACING ONE OF WORST ECONOMIC CRISES IN ITS HISTORY--PERHAPS THE WORST. THERE WOULD BE SACRIFICES, BUT BURDEN WOULD BE EQUALLY SHARED. THE MINISTER SAID ARGENTINA'S DEVELOPMENT HELD BACK DUE DOMESTIC MISTAKES, INCLUDING FAILURE ACHIEVE POLITICAL STABILITY AND IMPLEMENT MODERN ECONOMIC POLICY. HUMAN WELFARE, HE ADDED, WAS KEY OBJECTIVE AND HE THEN EXPLAINED HOW CORPORATE PROFITS, SAVINGS, INVESTMENT, PRODUCTION AND GROWTH ALL NECESSARY TO PROMOTE WELFARE.

3. FISCAL: MARTINEZ DE HOZ SPENT NEARLY ONE HOUR DISCUSSING FISCAL PROBLEMS AND PROPOSED SOLUTIONS. BASIC POINTS SAME AS COVERED REFTEL, ALTHOUGH MINISTER PROVIDED SOME ADDITIONAL INTERESTING COMMENTARY. DISCUSSING NEED TO REDUCE AND REORGANIZE PUBLIC SERVICES, HE STRESSED IMPORTANCE DEVELOPING BETTER MECHANISMS FOR ASSISTING PERSONNEL TO MOVE FROM PUBLIC TO PRIVATE SECTOR. HE SPECIFICALLY MENTIONED NEED FOR FINANCIAL ASSISTANCE, TRAINING OPPORTUNITIES, ETC. REGARDING REVENUES, MARTINEZ DE HOZ OUTLINED SEVERAL SPECIFIC TAX MODIFICATIONS (DETAILS COVERED SEPTTEL) AND REEMPHASIZED NEED FOR BROADER TAX REFORM IN FUTURE. EXCHANGE POLICY: MARTINEZ DE HOZ MADE ESSENTIALLY SAME POINTS COVERED REFTEL. KEY POLICY STATEMENT WAS THAT BLACK MARKET AND CONFIDENTIAL

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OVERVALUED OFFICIAL RATE FOR PESO MUST BE ELIMINATED, REACHING FREE AND SINGLE EXCHANGE RATE. THE MINISTER SAID IN PRESENT ECONOMIC CIRCUMSTANCES THIS MODIFICATION CANNOT BE IMPLEMENTED ALL AT ONCE. HOWEVER, HE ANNOUNCED SEVERAL SPECIFIC NEW MEASURES AS FOLLOWS: A) OFFICIAL RATE OF 140 PESOS PER DOLLAR TO CONTINUE FOR FUEL AND NESSPRINT IMPORTS; B) USE OF FREE MARKET RATE TO BE SUBSTANTIALLY EXPANDED; C) EXPORT AND IMPORT FOREIGN EXCHANGE TRANSACTIONS TO BE GRADUALLY SHIFTED TO FREE

MARKET RATE; D) SELECTIVE INCENTIVES TO BE IMPLEMENTED FOR NON-TRADITIONAL EXPORTS (FURTHER DETAILS CONTINUED SEPTTEL).
MONEY AND CREDIT: KEY POLICY STATEMENT HERE WAS THAT EFFICIENCY AND FLEXIBILITY MUST BE RETURNED TO BANKING AND FINANCIAL SECTOR, AND THAT PERONIST SYSTEM OF DEPOSIT NATIONALIZATION TO BE ELIMINATED. NOTE: AT THIS POINT IN SPEECH, MARTINEZ DE HOZ IMPROVISED, STATING HE CONFIDENT GOA WOULD BE ABLE OBTAIN NECESSARY INTERNATIONAL FINANCIAL SUPPORT AS RESULT SOUND ECONOMIC PROGRAM WHICH HE ANNOUNCING. HE EMPHASIZED REQUEST FOR FINANCIAL ASSISTANCE WOULD BE MADE ONLY AFTER IMPLEMENTATION UNDERWAY AND BASED ON CONCRETE ACHIEVEMENTS, NOT PROMISES.

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FM AMEMBASSY BUENOS AIRES AIRES

TO SECSTATE WASHDC IMMEDIATE 5154

C O N F I D E N T I A L SECTION 2 OF 2 BUENOS AIRES 2286

EXTERNAL COMMERCE: NO SIGNIFICANT CHANGES IN POINTS COVERED REFTTEL. AGRICULTURE: NO BASIC CHANGES BUT A NUMBER OF POINTS EXPANDED. THE MINISTER SAID GOVT'S OBJECTIVE IN AGRICULTURAL SECTOR IS TO GRADUALLY MODIFY RELATIVE PRICES, PUTTING THEM ON REALISTIC BASIS. HE SAID AGRICULTURAL EXPORTS IN FUTURE WOULD ENJOY EXCHANGE RATE BASED REAL PARITY AND EXPORT TAXES WOULD BE GRADUALLY REDUCED AS POSSIBLE. HE POINTED OUT THAT CURRENT FISCAL CRISIS MAKES RAPID SOLUTIONS DIFFICULT. NEVERTHELESS, TO INDICATE GOVT'S INTENTIONS, HE DECREED IMMEDIATE AND SUBSTANTIAL DOMESTIC PRICE INCREASES FOR VARIETY OF GRAINS (DETAILS COVERED SEPTTEL). HE ALSO ELIMINATED LIVESTOCK SLAUGHTER

QUOTAS AND SAID MEAT LAW WOULD BE REFORMED. INDUSTRY: BASICALLY NO CHANGE FROM POINTS COVERED REFTEL. ENERGY: ALSO ESSENTIALLY SAME AS POINTS MADE REFTEL. IN PETROLEUM AREA, MARTINEZ DE HOZ GAVE FIRST PRIORITY TO ACCELERATING SECONDARY RECOVERY AND ALSO CALLED FOR SHARP EXPANSION EXPLORATION ACTIVITY. YPF TO CONTRACT WITH PRIVATE COMPANIES, INCLUDING FOREIGN COMPANIES, INCLUDING FOREIGN COMPANIES, FOR THIS WORK. TO MAKE EXPLORATION ATTRACTIVE, REASONABLE CONDITIONS SHOULD BE GIVEN TO PRIVATE COMPANIES. DOMESTIC CRUDE PETROLEUM PRICES RAISED 55 PERCENT TO STIMULATE PRIMARY PRODUCTION AND SECONDARY RECOVERY. FUEL PRICE INCREASES ALSO DECREED, AVERAGING ABOUT 30 PERCENT. CONFIDENTIAL

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MARTINEZ DE HOZ SAID NATURAL GAS RESERVES PROMISING, AND PRODUCTION SHOULD BE STIMULATED AGAIN VIA CONTRACTS WITH PRIVATE COMPANIES. THESE ESSENTIALLY SAME POINTS AS COVERED REFTEL. THE MINISTER ALSO EMPHASIZED IMPORTANT WORK IN MINING AREA WHICH MILITARY ENTITY, FABRICACIONES MILITARES, HAS ACCOMPLISHED. FOREIGN INVESTMENT: POINTS BASICALLY SAME AS THOSE IN REFTEL. KEY POLICY POINT IS COMMITMENT TO ABROGATE PERONIST FOREIGN INVESTMENT LAW, REPLACING IT WITH NEW LAW REDUCING AREAS PROHIBITED TO FOREIGN INVESTMENT TO MINIMUM AND RESPECTING RIGHTS OF FOREIGN INVESTORS. (NOTE: MARTINEZ DE HOZ DID NOT INCLUDE FURTHER DETAILS ON PROPOSED NEW FOREIGN INVESTMENT LAW WHICH CONTAINED PRELIMINARY PLANNING GUIDELINES.) ACCORDING TO ECON MIN, UTILIZATION SCARCE NATIONAL CAPITAL TO PURCHASE ASSETS ALREADY CREATED AND EXISTING IN COUNTRY IS COUNTER-PRODUCTIVE.) HE SAID OUTSTANDING INVESTMENT PROBLEMS (SPECIFIC CASES NOT MENTIONED) SHOULD BE RESOLVED AS QUICKLY AND EQUITABLY AS POSSIBLE, MAINTAINING ARGENTINA'S JURIDICAL TRADITIONS. INCOMES POLICY: ALL PRICES TO BE COMPLETELY DECONTROLLED EXCEPT PHARMACEUTICAL ITEMS. COMPANIES WILL ONLY BE REQUIRED SUBMIT SIMPLE COST/PRICE INFORMATION TO GOA. (NOTE: COMPLETE DECONTROL ANNOUNCED CLEARLY AND EMPHATICALLY BY MARTINEZ DE HOZ IN SPEECH, BUT DECONTROL ONLY INDIRECTLY IMPLIED IN PRELIMINARY GUIDELINES AND IN WRITTEN TEXT OF SPEECH); STATE WILL PERIODICALLY ESTABLISH WAGE INCREASES BASED COST OF LIVING INDEX. SALARY NEGOTIATIONS AND/OR AUTOMATIC SALARY READJUSTMENT SYSTEMS ARE SUSPENDED. (NOTE: FURTHER IDEAS FOR RESOLVING LABOR PROBLEMS OMITTED FROM ACTUAL SPEECH.) HOUSING: NOT INCLUDED AT ALL. NOTE: REPORTEDLY SOME ARMED FORCES ELEMENTS OBJECTED MINISTER'S PROPOSAL TO DECONTROL RENT LAW.

4. COMMENT: SPEECH ANNOUNCES GOVT'S INTENTION TRANSFORM AND REORIENT ARGENTINE ECONOMY TO PROMOTE RAPID GROWTH UNDER FREE ENTERPRISE SYSTEM. THIS OBJECTIVE MARKS 180 DEGREE TURN FROM STATE CONTROLLED REDISTRIBUTION ECONOMY ADVOCATED BY PERONISTS AND TO SOME EXTENT BY ALL GOVTS SINCE WW II. ACTUAL MEASURES IMPLEMENTED THUS FAR RELATIVELY MODERATE (E.G., MIX OF EXCHANGE RATES ADOPTED STILL SOME WAY FROM FREE EXCHANGE

MARKET) AND IT APPEARS JUNTA WILL CONTINUE MOVE AT MEASURED PACE. NO CRASH PROGRAM IS ENVISAGED SUCH AS THAT ATTEMPTED BY ECON MINISTER RODRIGO LAST JUNE.

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5. REACTION TO SPEECH STRONGLY FAVORABLE AMONG BUSINESS AND BANKING SECTOR, AND WE BELIEVE MIDDLE CLASS, FED UP WITH MIS-GOVERNMENT, IS READY TO ACCEPT PROGRAM. LABOR REACTION WE ASSUME MAY BE UNFAVORABLE. THEY WERE OFFERED NO SPECIAL CRUMBS, EITHER POLITICAL OR ECONOMIC, BY MARTINEZ DE HOZ. NEVERTHELESS, FOR TIME BEING AT LEAST, IT APPEARS UNIONS PREPARED GO ALONG WITH MEASURES; WORKERS NOW MAINLY INTERESTED MAINTAINING JOBS AND STAYING OUT OF TROUBLE. DEGREE OF CONFIDENCE INSPIRED BY PROGRAM WILL BE CLEARER FOLLOWING OPENING OF EXCHANGE MARKETS.

6. COMPLETE DECONTROL DOMESTIC PRICES IN CURRENT INFLATIONARY PROCESS REPRESENTS A GAMBLE IN OUR VIEW. ALTHOUGH GOA HAS WAGES AND OTHER ECONOMIC VARIABLES UNDER BETTER CONTROL, SHARP PRICE INCREASES FOR SOME ITEMS ARE LIKELY-AT LEAST OVER SHORT TERM. INCREASES IN CONSUMER BASKET ITEMS, PREVIOUSLY TIGHTLY CONTROLLED, MAY BE ESPECIALLY SIGNIFICANT AND ARE LIKELY PRODUCE STRONGEST REACTION.

7. DOMESTIC CLIMATE FOR IMPLEMENTATION THESE LIBERAL MEASURES FAVORABLE AS PERONIST EXPERIMENT STATE CONTROLLED REDISTRIBUTION WIDELY RECOGNIZED AS MANIFEST FAILURE. NEVERTHELESS, DIFFICULT MONTHS LIE AHEAD WHICH WILL REQUIRE SACRIFICE FROM ALL SECTORS. RESISTANCE TO "ANTI-POPULAR" STABILIZATION MEASURES MAY INCREASE AS AUSTERITY MEASURES BEGIN TO BE FELT MORE DIRECTLY BY LOCAL POPULACE. FURTHERMORE, UNLESS JUNTA SUCCESSFULLY COMES TO GRIPS WITH TERRORIST PROBLEM, SUCCESS OF PROGRAM ITSELF WILL REMAIN IN DOUBT AND NEEDED INFLUX OF FOREIGN CAPITAL CANNOT BE EXPECTED. EMBASSY BELIEVES MINISTER HAS ANNOUNCED FIRST RATE STABILIZATION PROGRAM, HOPEFULLY WITH A FAIR CHANCE OF PLACING COUNTRY ON ROAD TO ECONOMIC RECOVERY.

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